

Message Text

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ACTION NEA-13

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EO 11652: GDS

TAGS: EAID, CE

SUBJ: FINANCE MINISTERS VIEWS ON SRI LANKA'S ECONOMY

1. I CALLED ON FINANCE MINISTER N. M. PERERA JAN 31 TO SOLICIT HIS VIEWS ON STATE OF SRI LANKAS ECONOMY AND TO DISCUSS PROCEDURES FOR FORTHCOMING MAINTENANCE OF VALUE (MOV) NEGOTIATIONS (LATTER SUBJECT REPORTED SEPTEL).

2. PERERA SAID THAT, ON BASIS RECENT REVIEW, HE WAS SOMEWHAT MORE HOPEFUL ABOUT ECONOMIC SITUATION. HE HAD TOLD CABINET PREVIOUS DAY THAT OIL PRICE SITUATION NOW SEEMED MORE MANAGEABLE ALTHOUGH ECONOMY AS WHOLE STILL FACED SERIOUS PROBLEMS. GSL ENERGY CUTBACKS, INCLUDING INTRODUCTION OF FIVE-DAY WEEK, SHOULD REDUCE OIL CONSUMPTION BY ABOUT 25-30 PERCENT. FURTHER-MORE, ENHANCED PRICES WHICH GSL WOULD RECEIVE FOR ITS BUNKER SALES OF REFINED OIL WOULD HELP OFFSET IMPACT OF INCREASED PRICES OF IMPORTED CRUDE.

3. DESPITE IMPROVEMENT IN OIL PICTURE, PERERA SAID HE WAS STILL WORRIED ABOUT HIGH PRICES OF IMPORTED FOOD, PARTICULARLY WHEAT FLOUR, AND HE ALLUDED TO
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USG'S PROBLEMS IN PROVIDING PL 480 FLOUR. CONSEQUENTLY,

GOVT HAD MADE TENTATIVE DECISION (WHICH HE ASKED BE KEPT IN CONFIDENCE) TO REMOVE WHEAT FLOUR FROM RATION AS OF APRIL 1. IN PARTIAL COMPENSATION GSL WOULD CONTINUE SUPPLY BREAD TO CERTAIN CATEGORIES OF WORKERS AND GSL WOULD BE PREPARED PROVIDE ADDITIONAL RICE IF NECESSARY. IN VIEW HIGH SUGAR PRICES, GSL WAS ALSO CONSIDERING REDUCING SUGAR ON RATION BELOW CURRENT THREE-QUARTERS OF A POUND PER WEEK.

4. FINANCE MINISTER WENT ON TO SAY FORTHCOMING MAHA RICE CROP SHOULD BE GOOD AND OVERALL YIELD MIGHT BE IN NEIGHBORHOOD 50-60 MILLION BUSHEL. YIELDS FOR SUBSIDIARY FOOD CROPS PLANTED DURING LAST YEARS FOOD PRODUCTION DRIVE SHOULD ALSO BE HIGH. HOWEVER, GSLS PROBLEM WAS HOW TO ENSURE THAT ADEQUATE RICE SUPPLIES WERE SOLD THROUGH GOVTS PADDY MARKETING BOARD (PMB). IN PAST BECAUSE FARMERS HOARDED PART OF CROP AND WERE ABLE OBTAIN HIGHER PRICES THROUGH PRIVATE DEALERS, LESS THAN 30 MILLION BUSHEL HAD BEEN SOLD TO PMB. THIS YEAR GOVT HOPED CHANNEL AS MUCH AS 40 MILLION BUSHEL THROUGH PMB AND WAS EXAMINING TWO WAYS TO ENSURE THIS RESULT: A) BY RAISING GPS PRICE ABOVE PRESENT RS 25 PER BUSHEL LEVEL AND B) BY INTRODUCING MEASURES WHICH WOULD FORCE AGRICULTURALISTS TO SELL TO PMB.

5. I ASKED PERERA HIS REACTION TO WORLD BANK TEAM WHICH HAD VISITED SRI LANKA IN DECEMBER. HE REPLIED IT WAS HIS IMPRESSION BANK TEAM HAD LEFT WITH RATHER POSITIVE ATTITUDE AND THAT IMF TEAM, NOW VISITING COLOMBO, ALSO SEEMED REASONABLY WELL DISPOSED TOWARD GOVTS ECONOMIC MEASURES, INCLUDING GSL'S PLAN TO RAISE BUS AND TRAIN FARES. IF BANK ISSUED FAVORABLE REPORT, HE HOPED THEY WOULD FOLLOW IT UP WITH LOAN OF AS MUCH AS \$40 MILLION, PART OF WHICH COULD BE USED TO PURCHASE URGENTLY-NEEDED INDUSTRIAL SPARE PARTS. PROSPECTS ALSO SEEMED REASONABLY GOOD FOR OBTAINING IMF STANDBY OF SDR 24.5 MILLION.

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6. PERERA SAID HE UNDERSTOOD THAT AID CONSORTIUM MEETING WOULD BE HELD IN APRIL AND HOPED US AND OTHER DONORS WOULD LOOK WITH POSITIVE EYE ON GSL'S POLITICALLY DIFFICULT DECISIONS TO CURB CONSUMPTION AND RAISE PRICES TO COMPENSATE FOR SKYROCKETING PRICES IMPORT DURING 1973. HE ALSO EXPRESSED CONCERN ABOUT WHAT HE REFERRED TO AS "TEMPORARY DISCONTINUATION OF PL 480."

7. I REPLIED THAT WE WERE VERY WELL DISPOSED TOWARD CONVENING OF CONSORTIUM MEETING THIS SPRING AND WOULD BE PREPARED TO ENCOURAGE OTHER DONORS IN POSITIVE DIRECTION. IT WAS PREMATURE TO PREDICT EITHER TYPE OR QUANTUM OF US ASSISTANCE BUT I WAS CONFIDENT WE WOULD BE AS HELPFUL AS POSSIBLE UNDER PRESENT CIRCUMSTANCES. WITH REGARD OUR PL 480 ASSISTANCE, ALTHOUGH WE HAD NOT BEEN ABLE PROVIDE AS MUCH WHEAT FLOUR AS ORIGINALLY CONTEMPLATED, WE HAD NOT DISCONTINUED PL 480 PROGRAM. HOWEVER, BECAUSE OF TIGHT SUPPLY SITUATION WE HAD INFORMED CEYLONSESE AUTHORITIES THAT, OUT OF 20,000 TONS OF WHEAT FLOUR COMMITTED TO SRI LANKA, WE WERE UNABLE AT THIS POINT TO SHIP MORE THAN 10,000 TONS, BUT THAT REMAINING 10,000 TONS HOPEFULLY WOULD BE RELEASED SOON.

8. COMMENT: N.M.'S SOMEWHAT HOPEFUL TONE HAS NOT BEEN REFLECTED IN REMARKS OF OTHER CABINET MINISTERS WHO CONTINUE PAINT DARK PICTURE OF COUNTRY'S ECONOMIC PROSPECTS FOR 1974.
VAN HOLLEN

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